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Loretta V. Cangialosi
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April 1, 2005

Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549-0609

Reference: File Number 4-497
Feedback on Implementation of Sarbanes-Oxley Internal Control Provisions

Dear Mr. Katz,

Pfizer is a research-based, global pharmaceutical company with its principal place of business in New York. We discover, develop, manufacture and market leading prescription medicines for humans and animals and many of the world's best-known consumer products. The Company's 2004 total revenues were $52.5 billion and its assets were $123.7 billion. We appreciate the opportunity to present our observations based on our experiences with implementing and evaluating the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (Act), as we firmly believe that strong internal controls over financial reporting are essential to the integrity of an entity's financial statements.

Overall, we support the Act as it was designed to enhance investor confidence in financial reporting and improve the protocols around corporate governance and auditor independence. In this first year of implementation of Section 404 of the Act, we encountered significant challenges, but our colleagues have an even greater awareness and appreciation for the importance of maintaining a system of strong internal controls across the organization. This, coupled with the ongoing SEC Enforcement efforts and recent prosecution and conviction of certain high level executives, has clearly demonstrated the importance of "doing the right thing."

We remain concerned, however, with the considerable compliance costs and resource burden on organizations resulting from implementation of Section 404 of the Act, which were much greater than originally anticipated. Although we recognize though that the initial costs of implementation will not recur, we still believe that the continuing costs of compliance are excessive. Additionally, we are troubled with some of the unintended consequences, one of which limited our ability to implement major changes to our operations (process, systems and organizational) in the latter part of the year. Moreover, lack of definitive guidance coupled with diverse interpretations by both registrants and public company accounting firms has resulted in inconsistent application. With that said, we believe there are some matters which should be considered by the Commission that could ease the financial burden and demand on resources, yet not reduce the benefits being realized through compliance with the Act. Our comments are included in the attachment to this letter.

Once again, we appreciate this opportunity to comment on the lessons learned in the first year of compliance and encourage the Commission to continue to engage its constituents. If requested, we would be pleased to discuss our observations with you at any time.

Very truly yours,

Loretta V. Cangialosi

Loretta V. Cangialosi
Vice President and Controller

cc: Alan Levin
Senior Vice President and Chief Financial Officer

David Shedlarz
Vice Chairman

Attachment
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General Comments:

Simply stated, we clearly support the fundamental premise of Section 404 of the Act. Effective internal controls over financial reporting are essential to restoring and maintaining investor confidence in our capital markets and public trust in corporate accounting and reporting practices. Significant changes were needed and essentially demanded by the market to restore confidence. However, many frauds stemmed from ethical lapses and overrides of existing controls at the very highest levels of the organization. In our opinion, having the correct "tone at the top" is one of the most significant risk mitigations to fraud. We question whether the current guidance and very literal interpretations of the PCAOB's Accounting Standard No. 2 (AS2) would have prevented or detected these types of defalcations.

Since this was the first year of implementation, there was a sharp learning curve experienced by both registrants and public company accounting firms. PCAOB Chairman William J. McDonough in his remarks to the Economic Club of Chicago on February 24, 2004 stated "[w]hen our inspectors find that which should not be there, we have broad enforcement powers, the greatest being the power to deregister an accounting firm and put it out of the audit business." With public company accounting firms knowing that they are at risk from the PCAOB inspections, most auditors have erred on the conservative side and when in doubt, expanded scopes and tested more processes and transactions to ensure that they would not be criticized. As a result, the costs and burden of Section 404 have been greater than originally envisioned. Further, the challenges companies have encountered have been vast, particularly those operating in a decentralized environment with geographically dispersed operations utilizing diverse processes and systems. These challenges were further exacerbated by the lack of definitive guidance. Keeping in mind the objectives of Section 404, we must strike an appropriate balance and try to alleviate some of the costs, both in terms of dollars and effort, while safeguarding the benefits Congress has sought to achieve.

Based on our experience in implementing Section 404 of the Act and our auditors compliance with AS2, we believe that the following would ease the burden required to comply with the spirit of the Act, yet not diminish the benefits realized by compliance:

- **<u>Clarify the Guidance Related to Deficiencies</u>**
  AS2 defines a "significant deficiency" as a "control deficiency" with a "more than remote likelihood that a misstatement of the company's annual or interim financial statements that is more than inconsequential will not be prevented or detected." Based on the interpretation of the public company accounting firms, this is an extremely low threshold which has resulted in the majority of deficiencies receiving the same level of scrutiny, whether ultimately significant to the financial statements or not. Both management and their auditors devoted substantial resources toward documenting, analyzing and debating the potential impact of the deficiencies identified. Valuable time and effort was invested in deficiencies that would not result in a material weakness. Much of this effort was driven by the fact that AS2 indicates that the auditor should expect management to correct significant deficiencies and if the deficiencies go uncorrected, it reflects poorly on the control environment of the enterprise. We believe that the definition and guidance surrounding the analysis of control deficiencies should focus more on obtaining reasonable, not absolute, assurance and on the existence of "material" weaknesses, rather than "significant" deficiencies.

- **<u>Ability of Management and their Auditor to Exercise Professional Judgment</u>**
  The implementation guidance does not adequately recognize the knowledge of the business and control environment maintained by both management and auditors. This guidance requires each audit to stand on its own without considering the results of prior audits and reviews. In effect, this requirement, combined with financial statement "coverage targets," has hindered the ability of

management and the auditor to exercise professional judgment to execute a more risk-based audit. Management and the auditor should be given more latitude to determine which of the key controls should be tested in a particular year. Without this, management and public company accounting firms cannot allocate resources in the most efficient manner based on their risk assessment.

The benefits to be gained by allowing the auditor more flexibility to exercise professional judgment can be clearly seen in the information technology (IT) environment where significant change is infrequent. Reasonable assurance that key controls in areas such as data security and change management can likely be obtained without rigorous testing of all of the key controls over the process. While we do not believe that critical key processes should be excluded from testing on a rotational basis, the auditor should be permitted to determine the appropriate level of testing that is suitable in each circumstance including an assessment of the changes during the period and the potential risk of the process. This assessment would be based on the auditor's current evaluation of the risks associated with the identified controls.

- **Guidance on Managing Fourth Quarter Business Changes**
  As a result of the guidance requiring compliance "as of" year end, in 2004 many businesses did not permit significant IT systems and business process changes in the fourth quarter to ensure that all required testing and remediation, if any, was complete by the assertion date. This unintended consequence of the application of Section 404 is an unsustainable business practice that is causing companies to defer making positive changes to business processes throughout their organizations and/or causing increased costs. For example, companies may decide to run parallel processes for a longer period of time incurring duplicate costs. More importantly, the changes deferred can ironically include, among other items, enhancements to internal controls over financial reporting. We believe an exception should be considered similar to that provided by the Commission for processes related to material acquisitions that have not been integrated. With such an exception, registrants can move forward with the positive changes to their IT systems and business processes, which benefit the registrant and investors.

- **Guidance on the Work Performed by Others: SAS 70 Reporting and Internal Audit**
  During our implementation, challenges surfaced in obtaining SAS 70, *Reports on the Processing of Transactions by Service Organizations* (SAS 70), reports. Some US and many foreign service providers, including affiliates of US registrants, were unfamiliar with SAS 70 Type II reports and their critical role in Section 404 compliance. Many were unwilling to provide such reporting. Also, in certain cases, the time period tested did not match our calendar year end; it has proven extremely challenging to obtain commitments from service providers to provide extended assurance through our year end. When SAS 70 reports were obtained, our inability to control the remediation of any identified deficiencies during our required timeframe was limited. Therefore, we believe the Commission should consider allowing a SAS 70 Type II report covering a period ending within six months of the registrant's assertion date for purposes of Section 404 compliance and provide more detailed guidance.

  In addition to relying on the internal controls of service providers via the SAS 70 report, we believe auditors should be permitted to use their professional judgment to decide whether and when to rely on the work of others. This is similar to the approach taken with the financial statement audit and SAS No. 65, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements.* AS2, however, states that the public accounting firms must use their "own work" as the "principal evidence" for their conclusions. Subsequent guidance issued by PCAOB has also limited the reliance auditors can place on management and internal audit. We believe the auditor should be able to place greater reliance on the work performed by others after evaluating their independence, objectivity and competence. Enabling the auditor to rely on the work of internal audit in terms of walkthroughs and control testing would be extremely beneficial.

- **<u>Interaction between the Requirements of Sections 404 and 302 Certifications</u>**
  As the first quarter SEC filing deadlines are quickly approaching, guidance is needed on the types of procedures, if any, that are required to update the Section 404 attestation on an interim basis and the impact this has on the Section 302 certifications. Currently, the guidance is unclear as to what management's obligation is to determine if any significant deficiencies or material weaknesses have developed since the prior quarter as well as the extent to which inquiry and observation is acceptable versus specific quarterly testing. At the end of last year, the public company accounting firms provided a framework through which deficiencies are to be assessed; unfortunately, they also stated that quarterly assessments must be done. This guidance, which is being mandated by the public company accounting firms to registrants, is at odds with the annual nature of the Section 404 assessment and inconsistent. We believe that this guidance confuses the intent of Section 302 with Section 404 and should be rescinded. However, if the guidance is maintained, and as no clear guidance has been established for quarterly materiality levels, each registrant will develop their own interpretations which may further add to inconsistencies.

- **<u>Guidance from Multiple Sources</u>**
  During 2004, multiple sources provided implementation guidance including SEC, PCAOB and the Big Four public company accounting firms through published white papers, etc. This caused much confusion among both registrants and auditors, and required a significant amount of time and resources to analyze the impact of such guidance. Guidance from one definitive source would be extremely beneficial.

- **<u>Rollforward Period</u>**
  Guidance around stub period testing continues to be inconsistent and in some cases, extremely conservative and difficult to apply. Some auditors have stated that not only does additional auditing on key controls need to be done for <u>every</u> site, process and system tested earlier than the fourth quarter, but in the fourth quarter <u>every</u> site, process and system must be retested using a smaller sample size. This is not only impractical given resources available, but causes significant disruptions within the effected areas. We believe that a more appropriate approach would be to perform a risk assessment, which would incorporate a review of the changes associated with the various in-scope sites, processes and systems, as well as other factors such as site complexity. Additional testing would be limited to only those locations affected by changes that may result in key control impacts.